

BEFORE THE

Federal Communications Commission

WASHINGTON, D.C.

RECEIVED

In the Matter of )

Review of the Commission's Regulations )  
Governing Television Broadcasting )

Television Satellite Stations )  
Review of Policy and Rules )

MM Docket No. 91-221

MM Docket No. 87-7

FEB 10 1997

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

COMMENTS OF PEGASUS COMMUNICATIONS CORPORATION

PEGASUS COMMUNICATIONS  
CORPORATION

FISHER WAYLAND COOPER  
LEADER & ZARAGOZA L.L.P.  
2001 Pennsylvania Avenue, N.W.  
Suite 400  
Washington, D.C. 20006  
(202) 659-3494

David D. Oxenford  
Veronica D. McLaughlin

Its Attorneys

February 10, 1997

No. of Copies rec'd  
List ABCDE

024

## **Table of Contents**

	<b><u>Page</u></b>
<b>Summary</b> .....	<b>i</b>
<b>Comments of Pegasus Communications Corporation</b> .....	<b>1</b>
<b>I. Introduction</b> .....	<b>2</b>
<b>II. Discussion</b> .....	<b>6</b>
A. Small Markets Are Less Diverse and Less Competitive .....	6
B. Regulatory Changes May Serve to Perpetuate the Position of Dominant Stations .....	12
C. Permitting the Common Ownership Of Two Television Stations Will Promote Program Diversity In Smaller Television Markets ...	13
D. Permitting Duopoly and LMAs Will Not Harm Competition But Will in Fact Enhance It In Smaller Markets .....	14
<b>Conclusion</b> .....	<b>18</b>

## **Exhibits**

<b>Exhibit A</b>	1995 Top 200 Television DMAs; Selected Data; Ranked by DMA
<b>Exhibit B</b>	1995 Top 200 Television DMAs; Local Channel Share (LCS) of Top 3 Stations; Ranked by DMA
<b>Exhibit C</b>	1995 Top 200 Television DMAs; Selected Data Ranked by Average Revenue Per household
<b>Exhibit D</b>	1995 Top 200 Television DMAs; #1 Station Listing; Ranked by Local Channel Share (LCS)

## **SUMMARY**

Through the television duopoly rule, the Commission seeks to promote diversity of programming sources and viewpoints and robust competition in local television markets. In its Second Further Notice of Proposed Rule Making, the Commission appears to assume that permitting duopolies and LMAs will harm these objectives and that only in the largest markets would such harms be relatively minor because of the existence of greater numbers of media outlets. In fact, permitting combinations of stations in smaller markets is likely to promote diversity and competition in these markets.

Because of the high fixed costs of station construction and operation, smaller markets currently are highly concentrated and are typically dominated by one or two long-established VHF stations. These dominant stations keep advertising rates artificially low in order to discourage new competition and limit the ability of existing competitors to earn the revenues required to compete effectively. Smaller markets, by definition, contain fewer stations, and therefore require that stations in the market achieve greater market shares than stations in larger markets in order to reach the revenue levels necessary for survival. By permitting duopolies and LMAs in these markets, the Commission will allow stations to take advantage of cost savings and economies of scale associated with combined operation. The resulting efficiencies will enable these stations to increase market share, thus becoming more effective marketplace competitors and will enable potential new competitors to afford the costs of activating television channels that now lie fallow.

Moreover, recent regulatory changes and proposals have the potential to perpetuate and exacerbate the lack of diversity and competition in smaller markets. First, the Commission's current proposal to replicate existing service areas in the new DTV allotments will preserve the

signal propagation advantages of VHF stations and the relative economic advantage derived from a VHF signal. In addition, the high cost of conversion to DTV constitutes a heavier burden on UHF stations, which currently earn a lower market share than dominant VHF stations and, because their market coverage disadvantages will be preserved in the DTV environment, will have less ability to earn an adequate return on their investment in DTV. Thus, even market stations that can afford the conversion to DTV, will be unable to rival dominant market stations. The Commission's proposal to recapture unused television spectrum for nonbroadcast uses will only exacerbate these problems by decreasing the number of potential new entrants into the market. Similarly, the relaxation of the national ownership limits in combination with the UHF discount has made it possible for station group owners to own a station in virtually every small market, thereby granting these group owners access to financial resources and leverage in negotiating programming deals with syndicators that is unavailable to stand-alone stations in the market.

Accordingly, permitting duopoly in smaller markets will allow the development of viable marketplace competitors where smaller market stations cannot now profitably and effectively compete, thereby increasing the number of television voices, the diversity of viewpoint among those voices and competition for advertising and programming. So that dominant stations cannot exploit rules permitting station combinations in order to perpetuate their market positions, however, the Commission should only permit duopolies and LMAs of stations whose combined market share does not exceed the greater of 40% or the actual market share of the largest station in the market.

BEFORE THE  
**Federal Communications Commission**  
WASHINGTON, D.C.

In the Matter of	)	
	)	
Review of the Commission's Regulations	)	MM Docket No. 91-221
Governing Television Broadcasting	)	
	)	
Television Satellite Stations	)	MM Docket No. 87-7
Review of Policy and Rules	)	

**COMMENTS OF PEGASUS COMMUNICATIONS CORPORATION**

Pegasus Communications Corporation ("Pegasus") respectfully submits these comments in response to the Second Further Notice of Proposed Rule Making in the above-captioned matter, released November 7, 1996 (the "Second Further Notice").

Pegasus is the parent company of the licensees of UHF television stations in the following television markets: Wilkes Barre-Scranton (DMA No. 49), Portland-Auburn, Maine (DMA No. 79), Chattanooga, Tennessee (DMA No. 82), Jackson, Mississippi (DMA No. 91) and Tallahassee, Florida, Thomasville, Georgia (DMA No. 116). As the operator of such smaller market UHF television stations, Pegasus is concerned to note that the Commission's discussions in its Second Further Notice seem to presuppose that a more compelling case can be made for television duopoly in the nation's largest television markets than in the smaller markets, simply because of the larger markets' greater gross number of media outlets. As set forth more fully below, however, Pegasus submits that the arguments for the public interest benefits of duopoly are in fact more compelling for smaller markets than are the arguments (compelling as they may

be) for such combinations in the larger markets. Therefore, Pegasus urges that the Commission permit television duopoly in all markets, subject to certain minimal restrictions set forth below.

## **I. INTRODUCTION**

Through the television duopoly rule, the Commission seeks to promote two complementary objectives: (i) diversity of programming sources and viewpoints, and (ii) robust economic competition in local television markets<sup>1/</sup>. In assessing the comments advanced by the parties in this proceeding, the Commission will be required to determine whether any changes to its rules will promote or hinder these twin objectives. The initial supposition advanced by the Second Further Notice appears to be that combinations of television stations, through duopoly or local marketing agreements (“LMAs”), will hinder both diversity and competition. In fact, there appears to be an assumption that such combinations are inherently injurious to the public interest, and that perhaps only in the largest markets, where such harm is relatively unimportant because of the greater absolute numbers of media outlets, can such combinations be permitted. The Commission’s initial assumptions seem to be that in smaller markets, where there are fewer media outlets, joint ownership or operation of television stations will of necessity be harmful to the goals of diversity and increased competition.

As set forth in more detail below, Pegasus will demonstrate that these initial assumptions as to the likely effect of television duopoly in the smaller markets are incorrect. While it may seem logical that the combination of two stations in a market where there are but a handful of competitors will of necessity decrease competition and diversity, in fact the effect of such a combination is a fact-based analysis, which must be carefully reviewed. When a careful analysis

---

<sup>1/</sup> See Multiple Ownership Rules, 22 FCC2d 306, 307 (1990), recon. granted in part 28 FCC2d 662 (1971).

is undertaken, it can be shown that appropriate combinations of stations in smaller markets, in particular where the combined market share of the two stations does not exceed the greater of 40% or the share of the single largest station in the market, not only would not harm these objectives but is in fact likely to advance them. In smaller markets, we believe that this beneficial impact will be the norm, not the exception.

In smaller markets, the Commission's worst fears have already been realized. These markets tend to be highly concentrated -- there is little competition or program diversity -- and they are typically dominated by one or two long-established VHF stations. However, as detailed below, the dominance of these stations does not result in higher rates to commercial advertisers, as one might assume would be the case if there was a dominant player, or a limited number of dominant players, in a particular market. Instead, as the figures set out below demonstrate, the rates in these markets, and in fact the amount of television advertising revenue, are less than those that are prevalent in the larger markets where there is more competition. Because of the dominance of these stations, the rates can be kept artificially low, discouraging new competition and limiting the revenues of existing competition so as to preclude that competition from being able to afford the programming and promotion that could make such competition into a true rival for the dominant facility.

The Commission has the means before it, through the selective use of television duopoly, to help to remedy this situation. As shown below, allowing duopoly in smaller markets will permit the economical development of viable marketplace competitors where such stations cannot and do not now profitably and effectively compete, and will lead to 1) a greater actual number of television voices, 2) more diversity of viewpoint amongst those voices, and 3) significantly greater overall advertising and programming competition.

The arguments, as more fully developed below, are both economic and historic. Pegasus' experience indicates that justification of construction of a truly competitive, stand-alone, full-service commercial broadcast television station (exclusive of local news) in any given market generally requires a minimum annual revenue potential of at least \$3 to \$4 million in order both to meet operating costs and provide a sufficient return on capital to investors and lenders to induce them to support establishment of the station in the first instance. Any additional effort to add local news programming (crucial to local viewpoint diversity) would increase this minimum revenue requirement to \$5 to \$7 million or more. Smaller markets, by definition, can support fewer such stations to begin with, with the corollary requirement that the station achieve a greater overall relative market share just to reach the revenue levels necessary for survival. In other words, as the market size decreases, each station's signal must reach a greater overall proportion of the total available audience just to achieve minimum required revenue, and, just as critically, the potential to compete by appealing to a more narrowly targeted segment of the total audience is dramatically reduced.

By allowing combinations of stations in these smaller markets, the stations can share costs, dramatically reducing many capital and operational expenses (e.g., through the use of a single studio and transmitter site, by allowing for existing staff to perform functions for two stations, etc.), while allowing the combined operation to increase market share, thus becoming more effective marketplace competitors. The efficiencies that will result will allow the activation of many television channels that are now fallow in smaller markets, while making those non-dominant stations that do exist in the smaller markets more competitive players.

The need to allow these changes must also be evaluated in the context of other changes which are or will be affecting the television marketplace. DTV is on the verge of becoming a



reality. With its high capital costs, and the apparent bias toward the existing VHF stations exhibited by the proposed DTV Table of Allotments in an effort to replicate existing service areas, DTV has the potential to exacerbate the existing problems of low diversity and competition in the smaller markets. If the existing situation were to continue, many vacant channels would never be activated to provide DTV, and many of the weaker small market stations simply would not be able to afford the necessary conversion costs. However, through duopoly and the creation of more effective marketplace competitors, the burden of DTV may be eased, allowing more small market stations to make the conversion.

Similarly, the changes in the national ownership limitations allowed by the Telecommunications Act of 1996 have created many very strong group owners in the smaller markets. Theoretically, one owner could hold stations in virtually every small market without reaching the national limits on audience reach. Such broad ownership gives groups access to financial resources not available to small market players, and gives the groups great leverage in negotiating favorable programming deals spanning several markets, thus making it more difficult for the stand-alone operator to purchase quality programming. Allowing the combination of small market stations through duopoly will permit these stations to have greater local market resources, which will give them more access to financial resources and a more realistic opportunity to compete for the purchase of quality programming.

Pegasus therefore submits that a true measure of television diversity must consider not just the sheer number of outlets currently available, but also both their relative market dominance and the factors that may often all but enshrine that dominance. Rules permitting common ownership and operation would allow weaker stations and new entrants to take advantage of economies of scale associated with combined operation, thereby actually promoting diversity and

competition by enabling these stations to program more narrowly, where appropriate, and to generally become stronger market competitors for programming, viewers and advertising.

However, so that already dominant stations cannot use the rules to perpetuate their existing dominance, the Commission should only permit duopolies and LMAs of stations whose combined share does not exceed the greater of 40% of the total market or the actual market share of the largest station in the market.

## **II. DISCUSSION**

### **A. Small Markets Are Less Diverse and Less Competitive**

In this rule making, the Commission seeks to reevaluate existing regulations prohibiting duopoly and limiting the use of LMAs within the context of fostering (or at least not diminishing) program diversity and competition. The Commission, however, appears to imply that there is a necessary and complete correlation between the extent of diversity in the ownership of TV stations in a particular market (as measured by the number of independently owned or operated stations) and the extent of the market's program diversity or competitiveness. This assumed correlation appears to lead the Commission to the conclusion that duopoly and LMAs are harmful to the goals of program diversity and competition (with the possible exception of very large markets, or of stations which are insolvent or failing). Pegasus submits that whether a correlation exists between diversity of ownership on the one hand and diversity of programming and competition on the other is fact-based. We believe that a direct examination of the facts as they exist in smaller markets leads to a directly contrary conclusion: Program diversity and competition in these markets is dramatically lower than in larger markets, and duopoly and continued authorization of LMAs, while not likely to enhance the diversity of ownership, are likely to result in increases in both program diversity and competition.

At Pegasus' request, BIA Publications, Inc. compiled detailed data on the top 200 television DMAs for 1995 (see Exhibits A-D attached). The following summary tables, drawn from that data, illustrate that, as market size decreases, the number of stations per market also decreases, and the dominance of the top stations increases. Moreover, the data also shows that markets characterized by greater concentration have lower than average market revenue per household. The fact is worth emphasizing: market concentration does not increase, but instead lessens, revenue per household.

**1995 TOP 200 DMA MARKET ANALYSIS -- Ranked by DMA Grouping  
(1-10, 11-25, 26-50, 51-100, 101-200)**

**RANKED BY DMA GROUPINGS**

<b>RANK</b>	<b>Avg. Revenue P/Block Per Household</b>	<b>Avg. Revenue Per household as % of Average Income Per Household</b>	<b>Avg. # VHF Stations</b>	<b>Avg. # UHF Stations</b>
1-10	\$223.55	0.478%	4.2	9.0
11-25	\$185.84	0.461%	3.9	5.8
26-50	\$153.15	0.398%	2.9	4.3
51-100	\$125.73	0.349%	2.7	3.1
101-200	\$104.75	0.306%	2.1	2.1

**AVERAGE LOCAL CHANNEL SHARE ("LCS")  
FOR TOP 3 RATED STATIONS**

**RANKED BY DMA GROUPINGS**

<b>DMA Group</b>	<b>Avg. LCS #1 Rated Stat.</b>	<b>Avg. LCS #2 Rated Stat.</b>	<b>Avg. LCS #3 Rated Stat.</b>	<b>Avg. LCS Top 2 Stat.</b>	<b>Avg. LCS Top 3 Stat.</b>
1-10	25.1	20.5	16.7	45.6	63.0
11-25	26.2	21.7	19.2	48.8	66.9
26-50	32.1	26.9	21.3	59.1	80.6
51-100	36.8	28.9	21.9	65.7	86.2
101-200	53.3	29.1	22.0	79.4	92.5

The diversity and competitiveness of local television markets is determined by the interplay of variables specific to each particular market (number of allocations, TV households and market revenues) and variables independent of individual markets (number of networks, availability and cost of syndicated programming, consolidation of ownership across markets and state of competing media). In general, however, program diversity (as measured both by the number of operating TV stations in a market and the extent of locally produced programming and news) and competitiveness (as measured by the relative share of market revenues held by the market's dominant stations) is inversely correlated with a market's size as measured by total TV households. As is clearly manifest in Exhibits A through D, smaller markets are significantly less diverse and less competitive than larger markets. This is principally a result of the economics of TV station operation and, in particular, the substantial fixed costs required to construct and operate a TV station. (The state of smaller markets is also influenced by how TV licenses were historically allocated and the significant advantages that VHF stations have over UHF stations.)

It is Pegasus' experience that an expenditure of \$5 million or more is required to construct a new TV station if it is to be operated on a stand-alone basis. (If it is intended that the station offer locally produced programming or news, an additional \$1 to \$2 million or more will be minimally required.) To economically justify such an investment, a broadcaster must conservatively anticipate annual operating income of \$750,000 or more (\$1 million or more if an investment in news is also made). The costs of station operation are both variable (programming and sales costs) and fixed (overhead, utilities and general and administrative expenses). It is Pegasus' experience that variable expenses run approximately 40% to 50% of station revenues. It is also the company's experience that fixed costs for a stand-alone station (exclusive of news or local programming) will exceed \$1 to \$1.5 million per year. (If a station intends to offer local news this would entail an increase in fixed costs of \$1 million or more.) Therefore, for a stand-alone TV station to cover its fixed costs and generate operating income sufficient to amortize the cost of construction, it requires annual revenues exceeding \$3 to \$4 million. (If the station also intends to program local news, the projected revenues must exceed \$5 to \$7 million.)

Whether a broadcaster can achieve the required revenues is, in part, a function of how large total TV revenues in the market are and how large a share of total market revenues the station can take. Market revenues are a result of two factors: TV households and revenue per TV household (in part, a reflection of advertising rates). In general, larger markets have more market revenues both because there are more TV households and because revenue per household is higher. (Conversely, smaller markets have less market revenues both because of fewer households and lower advertising rates due to less competition.) Therefore, as an example, in New York, with total market revenues of \$1.287 billion, a station may achieve sufficient operating profitability to justify construction without exceeding a 1% share of total market

revenues. In contrast, in Jackson, Mississippi, with market revenues of \$36 million, a stand-alone station without news would require a market share of 10% to 12.5% to justify construction (and with news, a market share of 20% or more). In even smaller markets, required market shares may exceed 25% or 30%.<sup>2/</sup>

A station's share of market revenues is a function of factors as diverse as a broadcaster's competence and ingenuity, a station's technical facilities, whether local news and programming are offered, and profitability and access to financial resources. In general, however, there is a strong positive correlation between a station's market revenue share and the following variables:

- (1) Whether it is VHF or UHF;
- (2) When it signed on;
- (3) If it programs local news and its share of local news viewing;
- (4) Its profitability.

Most dominant stations are VHF stations, were among the first stations to sign on in their markets, offer local news and have dominant shares of local news viewing. Virtually by definition, VHF stations have signal coverage profiles markedly superior to those of UHF stations; and the significance of this advantage clearly increases as the markets get smaller -- it is easier to obtain the required viewership. If this coverage advantage is further exercised to hold down advertising rates, the VHF position can become impregnably dominant; and this is precisely what often occurs. As market size decreases, the relative VHF advantage increases disproportionately, and both diversity and competition suffer. A proposed new TV station that will be operated on a stand-alone basis with none of these advantages is unlikely to achieve a market share of more than 5% to 10%. For these reasons, it is difficult or impossible to justify

---

<sup>2/</sup> It should come as no surprise that the WB Network has evidently concluded that it simply cannot compete in DMAs 101 or lower. See Lynette Rice, Round Three: UPN vs. The WB, Broadcasting & Cable, Aug. 26, 1996, at 5.

the construction of a new stand-alone TV station in a market unless market revenues exceed \$35 or \$40 million annually. Similarly, it is unlikely that an existing station that does not program local news has a market share exceeding 20%. Unless market revenues exceed \$40 million or more, it is unlikely that such a station will begin to do so.

Because of the fixed costs of station construction and operation, smaller markets are both less diverse and less competitive. This lack of diversity and competitiveness in turn causes advertising rates and therefore market revenues to be lower, reinforcing the lack of diversity and competitiveness. This lack of diversity and competitiveness has been inadvertently exacerbated by the manner in which television licenses were historically allocated. When the Commission originally allotted television channels more than 50 years ago, it used only the VHF band because of its greater coverage and lesser power requirements. Less desirable UHF signals were then allotted later as demand for channels increased. It is worth emphasizing that the original decision regarding the number of VHF and UHF channels allotted to each market was not based upon considerations of diversity or competitiveness, but instead upon population statistics and engineering non-interference issues as they existed 50 years ago. Larger metropolitan areas received both a greater allocation of all licenses and a greater allocation of VHF licenses. As a result, smaller markets - where economics render diversity and competitiveness more problematic - are also those where the relative advantages of the earliest entrants (because they are disproportionately owners of VHF stations with the advantages of VHF coverage) are greatest. These two factors - fixed costs and VHF advantage - significantly lessen the diversity and competitiveness present in smaller markets.<sup>3/</sup>

---

<sup>3/</sup> Pegasus' own markets are illustrative. In Tallahassee, Florida, there is one VHF station in a market of four commercial stations. Despite vigorous competition, the VHF station  
(continued...)

**B. Regulatory Changes May Serve to Perpetuate  
the Position of Dominant Stations**

Recent regulatory changes and proposals have the potential to further decrease the diversity and competition in small markets. For example, the Commission currently proposes to replicate existing service areas in the new DTV allotments, thereby preserving the signal propagation advantages of VHF television stations. Through higher DTV powers, with the commensurate greater coverage and stronger signals, even in primary service areas, the relative economic advantage derived from a VHF signal may well be institutionalized.<sup>4/</sup>

Moreover, as the Commission has noted, the cost of equipment to operate on the new DTV channels is expected to be quite high. Estimates have ranged from a low of \$750,000 to \$10 million.<sup>5/</sup> This cost is fixed for both VHF and UHF stations. But the cost imposes a heavier burden on UHF stations, which already earn a lower market share than VHF stations and, because their market coverage disadvantages will be preserved in the DTV environment, will have less ability to make an adequate return on this significant investment in DTV. Thus, marginal UHF stations may not be able to afford the conversion to DTV or, if they can convert, will remain weak, and strong VHF stations will continue to dominate small markets. Moreover, the Commission's proposal to recapture unused television spectrum for other nonbroadcast uses

---

<sup>3/</sup> (...continued)  
enjoys a market revenue share approximating 60%, and there is at least one unbuilt UHF allocation in the market. See Exhibits A - D.

<sup>4/</sup> See Advanced Television Systems and Their Impact upon the Existing Television Broadcast Service, Sixth Further Notice of Proposed Rule Making ("Sixth FNPRM"), 11 FCC Rcd 10968, 10974-75 (1996).

<sup>5/</sup> Id. at 11065.



will further exacerbate these problems by decreasing the number of potential new entrants into the market.

Similarly, the Commission's relaxation of the national ownership limits pursuant to the Telecommunications Act of 1996 has resulted in consolidation of ownership of stations into large station groups. In fact, under the 35% national audience reach cap, and because of the UHF discount, a station group owner could own a station in every market below the top 30 as long as the majority of these stations were not in the VHF band. These station groups have greater access to capital for station improvements, promotion and operation. Moreover, large group owners have an advantage over owners of stand-alone stations in dealing with syndicators by virtue of their operation in many markets.

### **C. Permitting the Common Ownership Of Two Television Stations Will Promote Program Diversity In Smaller Television Markets**

Allowing the combination of a new station with an already existing station in the market totally changes the financial dynamics of the startup of such a new station. Common ownership of two stations in a market, or ownership of one and an LMA with another, would allow for the establishment of full marketplace competitors in markets too small to support such operations at the current time. Pegasus estimates that combining a new station with an already existing facility will result in: 1) fixed operating costs of the new station being cut by up to two-thirds; 2) required capital investment for the new station being cut by as much as two-thirds; and 3) the two stations having the ability to share local news production costs (possibly creating two news efforts where there was previously none). As examples of such savings, both stations could operate out of a single studio building, sharing production facilities, master control, and other hard costs. If the technical spacings permit, both stations could commonly locate on a single

tower, and perhaps even share a single antenna. Reduced personnel costs would also contribute to the savings. A single general manager could oversee both stations, and a single program director could purchase the programming and plan the broadcast schedule of the two stations. At every level of the station, from these high management positions down to the receptionist and the janitor, costs that would otherwise be duplicated could instead be shared.

Such cost reductions would enable the creation of new stations in smaller markets. In fact, such savings can allow new stations to be started in markets with as little as \$18 million in total market revenue. Alternatively, these savings would enable more narrowly targeted programming in larger markets, thereby enhancing overall viewpoint diversity. Finally, they would allow two weaker stations, operating jointly, to offset some of the inherent advantages of market dominant VHF stations.

In this light, the recent rush to file applications for new television stations (for allotments that had been fallow for long periods of time) in response to the Commission's announcement that it would soon no longer be accepting NTSC applications makes sense. Many commentators have wondered why parties would file for allocations that have long been considered to be not economically viable. Pegasus believes that many applicants filed simply because of the anticipated potential for LMA/duopoly operations. This is clear evidence that increased diversity will in fact result from amending the Commission's rules to permit common ownership and LMAs in smaller markets.

#### **D. Permitting Duopoly and LMAs Will Not Harm Competition But Will In Fact Enhance It In Smaller Markets**

As shown in Section IIA, above, smaller markets tend to be characterized by lower revenues per household and greater market concentration. This situation is in part the result of

the ability of a few market-dominant VHF stations to keep advertising rates low. This has the result of keeping competition out of the market, or making what competition that does exist weaker because of the lower than expected revenues that the competition can earn. Allowing for combinations of local television stations should give these competitors more clout with advertisers, allowing advertising rates to rise to their expected levels and allowing these stations to become more truly competitive with the dominant stations in their markets.

While it is possible, and perhaps even expected, that advertising rates would increase from their current levels if the Commission were to permit television duopolies and LMAs in smaller markets, such an increase would not harm consumers or competition in the local advertising market. Instead, this result may be viewed as a desired outcome reflective of greater competition and leading to greater diversity of programming and viewpoints. Higher advertising rates do not harm consumers, and instead may well benefit them as broadcasters use their additional revenues to increase the quality of their programming and to develop local news. Allowing common ownership and LMAs in smaller markets would also increase competition in the video program production market by increasing smaller market stations' leverage vis-a-vis both dominant stations and station group owners in bargaining for syndicated programming. Currently, group owners have an advantage over single market operators in connection with the purchase and sale of syndicated broadcast programming. Group owners, who may own virtually an unlimited number of smaller market stations without violating the national multiple ownership limitations, can often secure programming through multiple market buys, precluding the weaker local station from purchasing desirable programs. By making the weaker competitor stronger, and giving it two local outlets in a particular market, duopoly and LMAs increase the weaker station's leverage with syndicators. On the other hand, owning two stations in one local market

could hardly, with the limitations suggested by Pegasus, give local station owners the ability to exercise undue market power in the local program production market.<sup>6/</sup>

While these savings may not turn the smaller markets into models of competition overnight, they will allow for the development of such competitive markets over a period of several years. The combination of the two stations will decrease the operating costs of each, while increasing the total audience share that the combination enjoys. This greater audience share should translate into a commensurately greater share of the market's revenue. The increased revenue will in turn allow the combined stations to purchase more competitive programming and participate in more effective promotional events, thus further increasing their market share. Over time, while the combined operation may never equal the success of the existing dominant market player with the technically superior facility, the combination should allow for more viable competition, and more diversity of viewpoints.

Moreover, it should be noted that while rates may rise in smaller markets, it is highly unlikely that they would rise to objectionable levels, as there are always other means of reaching a target audience. Newspapers are the dominant advertising medium in most markets, and particularly in smaller markets the newspaper tends to have a monopoly position. Stronger radio combinations allowed by the 1996 Telecommunications Act, as well as direct mail, cable television, outdoor advertising and other options all can be used as a substitute for television advertising. The existence of these sources of advertising serves as an effective check on any precipitous rise in the advertising rates charged by television stations.

---

<sup>6/</sup> As the Commission has recognized, the effects of the local ownership rule on the video program production market raise fewer concerns than the rule's effects on other markets because the video program production market is more national in scope. Second Further Notice ¶7, note 19. Nevertheless, some increased competition in this market may be realized from small market duopolies and LMAs.

Because of Pegasus' concern with encouraging marketplace competition, it believes that combinations should not be allowed in all instances, and that some limitations must be built in. However, Pegasus believes that the relevant distinction to be drawn should not be one of gross number of television outlets; nor, the foregoing arguments notwithstanding, should the distinction be strictly one of UHF or VHF channel allocation (although such a distinction is, as a practical matter, likely to result in most instances). Instead, the analysis should be strictly based on competitive factors. To best make such an analysis in a manner that will provide certainty and will not create a processing quagmire for the Commission, Pegasus suggests that the Commission simply establish a limiting benchmark on LMAs and/or duopolies: the greater of a 40% market share or the market share of the strongest competitor in the market.. In this way, diversity and competition will be encouraged.<sup>2/</sup>

---

<sup>2/</sup> Pegasus notes that few existing LMAs appear to violate either benchmark.

**CONCLUSION**

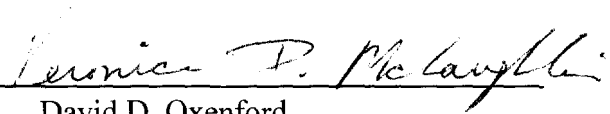
For the reasons set forth above, Pegasus respectfully requests that the Commission adopt the proposals set forth herein.

Respectfully submitted,

**PEGASUS COMMUNICATIONS CORPORATION**

FISHER WAYLAND COOPER  
LEADER & ZARAGOZA L.L.P.  
2001 Pennsylvania Avenue, N.W.  
Suite 400  
Washington, D.C. 20006  
(202) 659-3494

By



David D. Oxenford

Veronica D. McLaughlin

Its Attorneys

February 10, 1997

**Exhibit A**

**1995 Top 200 Television DMAs**

**Selected Data; Ranked by DMA**

1995 TOP 200 MARKET ANALYSIS

RANK	MARKET	LMA P/MKT	TOT. MKT REV. 1995 (000)	TOT. HH P/MKT 95 (000)	AVG REV. P/HHLD	AVG INC. P/HHLD	RATIO ARPHH/ AIPHH	# L.PWR STAT. P/MKT	#UHF P/ MKT	% TOT. UHF BUILT	#VHF P/MKT	%TOT. VHF BUILT	TOT. # UNBUILT ALLOC.	% OF TOTAL ALLOC.
1	New York		1,287,500	6,824	188.67	50,479	0.374%		9	60%	6	40%		
2	Los Angeles		1,339,500	5,039	265.83	43,390	0.613%		11	61%	7	39%	4	22%
3	Chicago		801,600	3,146	254.80	48,406	0.526%		9	69%	4	31%	1	8%
4	Philadelphia		504,000	2,673	188.55	47,286	0.399%		10	77%	3	23%	1	8%
5	San Francisco-Oakland-San Jose		561,000	2,343	239.44	50,719	0.472%		11	73%	4	27%	1	7%
6	Boston		481,400	2,160	222.87	47,205	0.472%		10	71%	4	29%	3	21%
7	Washington, D.C.		437,900	1,914	228.79	52,357	0.437%		7	64%	4	36%	1	9%
8	Dallas-Ft. Worth	2	448,000	1,850	242.16	45,117	0.537%		11	73%	4	27%	3	20%
9	Detroit		334,000	1,777	187.96	43,374	0.433%		5	63%	3	38%	1	13%
10	Atlanta		348,000	1,608	216.42	41,698	0.519%		7	70%	3	30%		0%
11	Houston		386,500	1,604	240.96	45,745	0.527%		9	75%	3	25%		0%
12	Seattle-Tacoma		272,000	1,514	179.66	46,685	0.385%		4	40%	6	60%	1	10%
13	Cleveland	1	227,800	1,472	154.76	39,215	0.395%		9	75%	3	25%		0%
14	Minneapolis - St. Paul		244,000	1,430	170.63	41,450	0.412%		4	50%	4	50%	5	63%
15	Tampa-St Petersburg-Sarasota		225,200	1,416	159.04	36,525	0.435%		9	75%	3	25%	2	17%
16	Miami - Ft. Lauderdale		387,500	1,353	286.40	39,725	0.721%		8	67%	4	33%		0%
17	Phoenix	1	274,000	1,200	228.33	36,316	0.629%		5	38%	8	62%	1	8%
18	Denver		221,600	1,185	187.00	41,164	0.454%		6	60%	4	40%		0%
19	Pittsburgh	1	184,000	1,162	158.35	39,231	0.404%		3	50%	3	50%	1	17%
20	St. Louis		187,000	1,118	167.26	40,861	0.409%		3	43%	4	57%		0%
21	Sacramento-Stockton-Modesto	1	188,000	1,133	165.93	38,930	0.426%		6	67%	3	33%		0%
22	Orlando-Daytona Beach-Melbourne	1	191,500	1,014	188.86	38,343	0.493%		9	75%	3	25%	1	8%
23	Baltimore	1	175,000	991	176.59	42,986	0.411%		3	50%	3	50%		0%
24	Portland, OR		147,600	960	153.75	38,223	0.402%		4	50%	4	50%	2	25%
25	Indianapolis		160,000	941	170.03	41,171	0.413%		5	56%	4	44%	1	11%
26	Hartford-New Haven	2	150,000	925	162.16	48,932	0.331%		6	75%	2	25%		0%
27	San Diego		216,000	940	229.79	42,316	0.543%	1	4	50%	4	50%		0%
28	Charlotte	1	128,700	812	158.50	37,227	0.426%		6	75%	2	25%	2	25%
29	Cincinnati		131,400	803	163.64	40,849	0.401%		2	40%	3	60%	1	20%
30	Raleigh-Durham	1	107,000	808	132.43	38,396	0.345%		8	80%	2	20%		0%
31	Milwaukee	1	132,900	790	168.23	41,403	0.406%		6	67%	3	33%		0%
32	Kansas City		136,500	789	173.00	40,104	0.431%		4	57%	3	43%	1	14%
33	Nashville	1	125,600	778	161.44	39,346	0.410%		6	67%	3	33%	3	33%
34	Columbus, OH	1	147,800	734	201.36	40,154	0.501%		3	50%	3	50%		0%
35	Greenville-Spartanburg-Asheville		80,100	702	114.10	33,168	0.344%		4	57%	3	43%	4	57%
36	Salt Lake City		125,400	671	186.89	38,927	0.480%		2	29%	5	71%	8	114%
37	San Antonio		129,600	644	201.24	36,160	0.557%		5	63%	3	38%	1	13%
38	Grand Rapids-Kalamazoo-Battle Creek	1	81,000	647	125.19	39,023	0.321%		4	57%	3	43%		0%
39	Buffalo		104,000	640	162.50	33,913	0.479%		3	50%	3	50%		0%
40	Norfolk-Portsmouth-Newport News	1	84,300	633	133.18	36,548	0.364%	1	5	63%	3	38%	2	25%
41	New Orleans		102,200	624	163.78	35,280	0.464%		4	57%	3	43%	2	29%
42	Memphis	1	85,000	616	137.99	36,208	0.381%		3	50%	3	50%		0%
43	Oklahoma City		93,000	592	157.09	34,343	0.457%		4	57%	3	43%	1	14%
44	Harrisburg-Lancaster-Lebanon-York		72,800	592	122.97	41,836	0.294%		6	86%	1	14%	1	14%

\*Quotations NOA (not on air) were excluded from #UHF, #VHF and % of total allocated



1995 TOP 200 MARKET ANALYSIS

RANK	MARKET	LMA P/MKT	TOT. MKT REV. 1995 (000)	TOT. HH P/MKT 95 (000)	AVG REV. P/HHLD	AVG INC. P/HHLD	RATIO ARPHH/ AIPHH	# L.PWR STAT. P/MKT	#UHF P/MKT	% TOT. UHF BUILT	#VHF P/MKT	%TOT. VHF BUILT	TOT. # UNBUILT ALLOC.	% OF TOTAL ALLOC.
45	West Palm Beach-Ft. Pierce	1	90,800	584	155.48	47,781	0.325%		4	67%	2	33%		0%
46	Providence-New Bedford		72,000	563	127.89	39,503	0.324%		2	40%	3	60%		0%
47	Greensboro-High Point-Winston Salem	1	63,500	567	111.99	35,716	0.314%		4	57%	3	43%	1	14%
48	Albuquerque-Santa Fe	1	80,800	565	143.01	34,614	0.413%		5	50%	5	50%	4	40%
49	Wilkes Barre-Scranton		44,000	560	78.57	34,695	0.226%		4	100%	0	0%		0%
50	Louisville	1	86,200	551	156.44	37,270	0.420%		4	67%	2	33%		0%
51	Birmingham		80,000	528	151.52	36,633	0.414%		3	60%	2	40%		0%
52	Albany-Schenectady-Troy		75,300	513	146.78	37,951	0.387%		2	40%	3	60%	1	20%
53	Dayton		78,500	507	154.83	39,371	0.393%		4	67%	2	33%		0%
54	Richmond-Petersburg		64,100	480	133.54	38,035	0.351%		2	40%	3	60%	1	20%
55	Jacksonville	1	81,400	496	164.11	39,238	0.418%		4	67%	2	33%	2	33%
56	Fresno-Visalia	1	64,300	495	129.90	33,428	0.389%		9	100%	0	0%		0%
57	Charleston-Huntington, WV		45,500	489	93.05	30,436	0.306%		2	33%	4	67%	5	83%
58	Little Rock-Pine Bluff	1	60,200	483	124.64	34,547	0.361%		4	57%	3	43%		0%
59	Tulsa	1	71,000	466	152.36	34,519	0.441%		4	57%	3	43%	2	29%
60	Flint-Saginaw-Bay City		48,300	440	109.77	35,343	0.311%		3	60%	2	40%	1	20%
61	Mobile-Pensacola	1	59,000	449	131.40	35,960	0.365%		6	67%	3	33%	3	33%
62	Knoxville		56,000	456	122.81	33,774	0.364%		3	50%	3	50%	1	17%
63	Wichita - Hutchinson		52,000	431	120.65	36,411	0.331%		1	25%	3	75%	5	125%
64	Austin, TX	2	70,600	434	162.67	41,348	0.393%	1	4	67%	2	33%	1	17%
65	Toledo		53,900	410	131.46	38,293	0.343%		2	50%	2	50%	1	25%
66	Las Vegas		85,000	417	203.84	42,626	0.478%		4	50%	4	50%		0%
67	Roanoke-Lynchburg		44,000	404	108.91	32,082	0.339%		3	50%	3	50%	3	50%
68	Lexington		47,500	379	125.33	32,836	0.382%		6	100%	0	0%	2	33%
69	Syracuse		45,400	390	116.41	35,285	0.330%		2	40%	3	60%	3	60%
70	Honolulu	1	64,800	389	166.58	50,954	0.327%		4	44%	5	56%	4	44%
71	Green Bay-Appleton	1	45,600	375	121.60	37,547	0.324%		3	50%	3	50%	3	50%
72	Des Moines-Ames		45,000	375	120.00	37,024	0.324%		1	25%	3	75%	8	200%
73	Rochester, NY		59,000	370	159.46	39,003	0.409%		1	25%	3	75%		0%
74	Spokane		44,000	375	117.33	35,061	0.335%		2	40%	3	60%	2	40%
75	Omaha	1	56,000	366	153.01	42,730	0.358%		2	40%	3	60%	1	20%
76	Shreveport		36,000	365	98.63	31,816	0.310%		2	40%	3	60%	4	80%
77	Springfield, MO		29,700	362	82.04	29,702	0.276%	1	2	50%	2	50%	2	50%
78	Paducah-Cape Girardeau-Harrisburg-Mt Vernon		32,400	357	90.76	29,868	0.304%		2	33%	4	67%	4	67%
79	Portland-Auburn		41,600	348	119.54	36,078	0.331%		1	25%	3	75%		0%
80	Tucson	1	53,000	352	150.57	32,702	0.460%		2	33%	4	67%	2	33%
81	Champaign-Springfield-Decatur		36,500	328	111.28	38,320	0.290%		4	80%	1	20%	1	20%
82	Chattanooga		38,500	306	125.82	34,552	0.364%		3	50%	3	50%		0%
83	Madison		37,000	314	117.83	39,904	0.295%		3	75%	1	25%	1	25%
84	Ft. Myers-Naples	1	47,000	311	151.13	41,521	0.364%		5	83%	1	17%		0%
85	South Bend-Elkhart		26,000	311	83.60	38,096	0.219%	1	5	100%	0	0%		0%
86	Huntsville-Decatur-Florence		35,100	326	107.67	37,153	0.290%		6	100%	0	0%	2	33%
87	Cedar Rapids-Waterloo-Dubuque	1	36,400	309	117.80	37,058	0.318%		1	25%	3	75%	3	75%
88	Davenport-Rock Island-Moline		33,600	306	109.80	36,840	0.298%		2	40%	3	60%	2	40%
89	Columbia, SC		35,000	303	115.51	35,218	0.328%		3	75%	1	25%	1	25%

\*Stations NOA (not on air) were excluded from #UHF, #VHF and % of total allocated